

U. S. AGRICULTURAL POLICIES IN THE 1980's

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Summary of research report
Managing Agricultural Technology for Profit
Chateau Lake Louise, Canada
March 11-14, 1985

Agricultural Policy for the United States is a topic that is widely
It is clear, it is controversial, it is constantly changing.

Federal income transfer payments to farmers are of major concern to many,
but new studies indicate that farm income, farm income, and farm income are
business, policy, and general rural matters.

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Summary of remarks before seminar
"Managing Agricultural Technology For Profit"

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Agricultural Policy in the United States is in a mess, to put it mildly. It is costly; it is controversial; it is counter-productive.

Federal income transfer payments to farmers are at near-record levels, but news stories escalate of farm failures, foreclosures, pressures on agri-business firms, and general rural distress.

Commodity group is set against commodity group as grain producers seek higher prices and livestock producers grapple with artificially stimulated feed costs.

Washington budget cutters single out the farm community for special criticism, while Congressmen from the farm community clamor for the scalp of the budget cutters.

Our grain and cotton producers are geared to produce for the export market, but they are tied to governmental price and production programs designed primarily for the domestic market. Their first market, too often, is essentially a government bin or a government warehouse.

Basic Observation: The higher the degree of governmental involvement in pricing and marketing, the deeper the economic pit in which agriculture wallows.

It is in this confused setting that the U. S. Congress approaches the task of hammering out a new 1985 Farm Bill.

Let's look at a bit of history to see where we come out today.

It was just 52 years ago, in 1933, that the U. S. Congress, engulfed in a flood of New Deal legislation, passed the original Agricultural Adjustment Act (popularly called the Triple-A). I was a beginning graduate student in Agricultural Economics at Purdue University, and of course followed closely the New Deal agricultural program which was supposed to adjust (reduce) agricultural production and thus enhance prices paid to farmers.

In the intervening half-century we have come full cycle - from crop reduction, to full production, to cut-back again. In 1983 we called it P.I.K. (Payment In Kind). Government paid our farmers, one way or another, to idle some 78 million acres of crop land - this was roughly equivalent to 38% of our total acres normally devoted to corn, grain sorghum, wheat, and cotton. When the Lord signed up in PIK and sent the 1983 drought in middle America, we really over-shot our reduction goal.

This year we call the reduction program by a different name - set-aside and paid diversion. The basic intent remains unchanged.

In the Triple-A program of 50 years ago, we plowed under every third row of cotton and paid our farmers for it. We destroyed wheat which had been planted, and paid farmers for it. We had birth control programs for cows and for sows, but they didn't work very well. We slaughtered six million young pigs, and paid farmers for it. We attempted to control the cattle population at the source. But cows and bulls didn't understand the program; it didn't work very well. We spent in those days what seemed to be tremendous sums of money to reduce output, but it seemed that the more we spent, the greater was the total output. Higher prices were an incentive to produce more. This was especially true during the time of great technological changes in agriculture we have experienced in recent decades.

In the last 50 years, I've seen us come through two or three cycles of too much and too little. I've seen us attempt to curtail output; I've seen us attempt to expand output. I've seen us try to do both of them simultaneously, as we really are doing this year. We send higher price signals out to our farmers to produce more, and at the same time we send checks out to entice them to produce less. I see many of those same contradictory things also taking place in other nations. They are not exclusive to the United States.

The error we often make in agricultural and food policy is to make long-term projections from short-term situations. We've made that error over and over again. It's like a philosopher once said, "It appears that all some people learn from experience is that they've been wrong again." Ex-President Harry Truman, a great student of history, often remarked, "The only new thing in this world is history we haven't read." Too frequently we have failed to read history.

The great bulk of the world's grain reserves are now held in the United States. At the World Food Conference in Rome ten years ago, in 1974, an effort was made to set up a multi-national system of world food reserves. But the plan has never worked very well because, historically, the United States, as a result of its internal price support programs, has carried the bulk of the world food reserves. Not through any conscious effort on our part to do so; it's been a by-product of our internal price support programs. Canada has done some of this also, through the holding of stocks at the farm level. When Congress passed the Agricultural Act of 1981, it set loan rates and target prices at a pretty high level. Moreover, they assumed that inflation would keep on rising at the same rate as in recent prior years. The Congress provided escalation in loan rates for both grain and cotton, and made it mandatory that escalation take place in so-called target prices -- about 11 percent for wheat over a 4-year period and 6 percent for corn.

Inflation has substantially slowed down, but under existing legislation, we still have escalation in target prices. This is, by itself, a clear signal to farmers to produce more. And farmers have responded perfectly logically by producing more. They have stepped up their use of purchased production inputs, such as chemicals, fertilizer, and irrigation. The United States is a dominant supplier in the world export market for grains and cotton. With our minimum price levels set by a high loan rate, our farmers have the option of selling abroad or selling to the United States government. When export prices get a bit below the U.S. minimum price set by the loan rate, they put their crop under loan, and in effect, sell to the U. S. government.

It's a perfectly logical choice that individuals make. So we've gotten ourselves into a position in the United States, in recent years, of producing for the Government rather than producing for the market. As a consequence, we have virtually set a floor under the world price of both food grains and feed grains. We have become the residual supply source for the world's export trade. It's a perfectly logical market development.

Add to that our unfortunate experience with export embargoes in recent years, and you get multiple reasons why the U.S. has become a residual supplier in the world export trade. We have sent a signal to the rest of the world that we're not a very reliable supplier. Add to that the fact that we have had times when longshoremen refused to load American grain on boats destined for Russia, ostensibly as a punitive measure, but really as pressure for higher wages, and "working rules" changes for the seafarer's unions. So, it's understandable that the impression is abroad that we're not a very dependable supplier.

Add to this the present situation where the U.S. internal price support levels become an incentive for the rest of the world to increase output, and the total problem is really compounded. Some of my colleagues argue that price supports are not at an incentive level in the United States; they maintain that I haven't tried to produce wheat for \$3.50 a bushel. I respond that all I know is that at that price level, the marginal cost of producing another bushel must be low enough that we pour on tremendous additional production inputs. Our farmers are doing this. They respond affirmatively to a pre-guaranteed price.

One of the best illustrations we see of this is the ridiculous system of dairy price supports in the United States, which had been costing us over \$2.4 billion dollars a year, until recent months. Under this program, the government had accumulated and now has in storage enough butter, cheese, and dried skim that we can supply our domestic needs for six months if we didn't milk another cow.

How and why did we get into such a mess? The government sent a price signal to our producers, "We want more milk". And farmers, not being stupid, produced more milk. At the same time, we sent a price signal to consumers, "Eat less cheese". And consumers, not being stupid, ate less cheese. We simply messed up the whole situation by false price signals -- to producers on one end, and to consumers on the other end.

We have done something similar to that in grains -- both in the United States and around the world. The bulk of the world's surplus stocks are held in the U.S.

But look what has happened to dairy in recent months. The support price was lowered, and retail prices moderated some. Production has turned downward in response to price, and consumption has turned upward, in response to price. Government purchases of dairy products has been reduced 40 percent, and the cost of the program has been slashed a like amount. Net income for dairy farmers is looking upward again.

The margin between too much food and too little food in this world is a very fragile margin. I think back to 1974 and the World Food Conference in Rome. Minister of Agriculture after Minister came to the microphone and said, "How are we going to get through the next year or two of this food crises without mass starvation in my country?" That was the current fear about the global food situation, including most of us in the United States and Canada. But scarcely a year had passed, until we were wondering how we were going to get rid of the supplies we had. We've gone through that cycle of too little/too much two or three

times in the last two decades. When I became U.S. Secretary of Agriculture in 1971, we sat on top of mountains of grain -- of corn, wheat and grain sorghum, and of cotton. The government owned it. It was a question of what to do with it. The pressure was on to get rid of it, any way. And we really moved it out, both at home and abroad. The headlines blared the big United States sale of grain to Russia. Our sales to third world countries that year increased a great deal. Japan remained our number one customer. We succeeded too well in reducing supply.

Within a year, the pressure was on to shut off exports to stop the rise in domestic food prices, and to release those acres which had been immobilized. Our farmers planted "fencerow to fencerow" in response to higher prices. Since then, we've been through this cycle again of too much/too little in the world. Again, I point out that it's a fragile margin between too much and too little grain in the world.

Too often we make a serious mistake in basing long-term predictions on short-term situations.

The source of our problem is an attempt to keep support prices at too high a level, which are incentive levels. This results in a number of undesirable things. It has a negative impact on world trade; it encourages national self-sufficiency; it encourages uneconomic efforts to dispose of your surplus one way or another. World trade in food is a good thing. As a matter of fact, I think world trade in any commodity is a good thing.

I am alarmed about the current world drive toward economic nationalism, and the trend to rising trade barriers. You see it all over the world. This is associated, in part, with the drive for national food self-sufficiency. And that comes, I presume, partly because of the political insecurity that grips so much of the world today.

I think of food security not alone in terms of adequate supply, but also in terms of cost. If one must spend 80% of his income for his food, he can't afford to own any of the ordinary other amenities of life. He doesn't have "food security". We should produce our food where it can be produced at lowest cost, and then trade among nations.

In the United States, and in Canada, we have one of the world's great resources in the food business. That's in the American Cornbelt and the Great Plains area, from Ohio on the east to the Rocky Mountains on the west; from the Prairie Provinces of Canada on the north to the high plains of Texas on the south. In this area we have the world's largest contiguous land mass with fertile soil; with adequate rainfall to do the kind of farming we do; with land level enough to lend itself to mechanical operation, and therefore low cost operation; with that marvelous growing climate in the temperate zone, with long periods of sunshine in July and August, right when the corn plant is doing its job; with highly capitalized, high management capacity farmers; with a good infrastructure to deliver the production inputs we need, and to collect and process and market the produce of those farms. Then put that marvelous water transportation system -- the Mississippi River and its tributaries and the Great Lakes -- right through the middle of the area, and that makes Peoria, Illinois, or Port Arthur, almost as close to Rotterdam as they are to Springfield, Massachusetts, freight-wise. Not quite as close; but almost as close. In this fortunate combination, we have a unique resource that's unequalled any place else on the face of the earth. That's not to our credit. The Lord just put it there. We have learned how to use it.

But now we're in the position of cutting back on that tremendous resource, through P.I.K., through set-asides, through paid diversion. We're in the process now of raising the cost of feeding the world by keeping uneconomic areas and uneconomic resources in the business of feeding the world, because we're drifting away from the concept of trade based on comparative advantage.

From the standpoint of providing real food security in the world, we're moving in the direction of raising the social cost and economic cost of feeding the world. We are maintaining uneconomic areas and uneconomic resources in this business, both in this country and abroad, as we build up barriers to trade, as we seek national self-sufficiency in our food systems.

How do we address this problem? How do we again unleash the tremendous productive capacity of Middle-America's and Middle Canada's bread basket? How do we re-direct world grain production to areas of greatest efficiency and lowest unit cost, both at home and abroad? How do we re-establish our competitive edge in the world's export markets? How do we lift the onus of production controls from our farmers? How do we restore the hope of expanding markets and rising incomes to our farmers?

It is increasingly obvious that the answer does not lie in the course we have been following. That path leads inevitably to expanded competition abroad, to loss of foreign markets, to curtailed production at home, to the proliferation of governmental controls, and to reduced income.

If we are tempted merely to fine-tune the old programs, we should recall President Harry Truman's warning, "The only new thing in this world is history you haven't read".

What we have been doing obviously doesn't work. Farm income can never be enhanced and rural welfare can never be achieved, in the long run, through a program of restriction, of rising unit costs, of market withdrawal, of expanded governmental controls.

The answer must be found in other directions. Key words will be: efficiency; lower unit costs; competitive pricing in export markets; favorable macro-policies in the non-agricultural sectors of government; loan rates at market clearing levels; a safety net under agriculture at a level which quits pretending that a government bin is a market; a signal to our competition abroad that "the honeymoon is over".

There is a discipline in the market place that works.

Let's give it a try.

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